Paul Smith
Anglian Water
PO Box 4994
LANCING
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16th November

Via e-mail

Dear Paul

Re: Consultation - Bulk Charges for NAVs Operating in the Anglian Water Region

I am writing to you on behalf of independent Water Networks Limited ("IWNL") who are part of the BUUK Infrastructure Group of companies.

Thank you for providing the opportunity to respond to your consultation on Bulk charges for NAVs operating in your region that was published on the 22nd October 2018. We welcome your open approach to engagement but are very disappointed with the time taken to launch this consultation following the publication and implementation of the Ofwat final guidance for bulk charges for NAVs on the 8th May 2018. We note that after more than 6 months IWNL have no more certainty of the charges that will be applied to NAV networks in the Anglian region. The process of gathering NAVs requirements could have started significantly earlier. Furthermore IWNL have already engaged with Anglian Water and other incumbents in 2016 and 2017 explaining their requirements. We are disappointed that this is not reflected in your consultation.

IWNL are expecting the application of the new NAV charges to comply with the principles of equivalence, simplicity and transparency to enable a NAV to compete fairly for new connections within an incumbent's area. It is important that the basis of these charges is clearly understood before applying for new connections in an incumbents licenced area. Without this clarity and certainty a NAV is placed at a significant competitive disadvantage in being successful in winning a new connection application as they are unable to understand the long run costs that they will incur in providing waste and potable water services. We do not believe that the approach that Anglian water are proposing addresses this issue as it continues to require significant interactions between a NAV and an incumbent before a price is finalised. We remain unclear why other incumbents have been able to provide a simple tariff charging structure but Anglian Water do not believe that this is possible.

We also are very concerned with the approach that Anglian Water appears to be taking in developing the level of charges in ensuring that they are not just compliant with the Ofwat guidelines but meet the broader objectives of not inhibiting competition under general competition law. Ofwat are clear on Page 14 of their May final guidance for Bulk charges for NAVs that “it does not constitute guidance on the application of competition law, incumbent companies remain separately responsible for managing their own compliance with competition law”. Although Anglian Water recognise the requirement to remain compliant there is no reference to any competition tests being applied by Anglian Water and we would expect you to have completed appropriate tests when applying your final charges. Specifically, but amongst other tests, we would expect all incumbents to assure themselves that the final NAV bulk supply tariff applied cannot be considered to lead to a margin squeeze. Further we would expect Anglian Water to consider whether the charging process is equivalent for a NAV when compared to tariffs available to other large customers and or incumbents or whether the approach being proposed by Anglian is so cumbersome or restrictive that it effectively excludes NAVs from competing on a fair and equivalent basis.

We have provided you with answers to your consultation questions as appropriate. However, we would generally note that:

- There does not appear to have been any attempt to reconcile costs from a bottom up perspective to ensure that the overall level of charges are appropriate, particularly with regards to the changes to the approach to developing tariffs post April 2020.

- Insufficient information has been provided to answer a number of the questions and there is little recognition that it remains the obligation of the monopolistic incumbent to justify their final decisions.

- There are a number of questions that we do not think it is appropriate for the NAV to comment on.

IWNL remains willing to work with Anglian Water to support the introduction of charges but this should not be used as a further delay to the introduction of NAV bulk supply charges.

Kind regards

Keith Hutton
Regulation Director (Heat, Fibre and Water)
BUUK Infrastructure

Appendix 1

Q1, Do you agree with our proposed objectives and principles for the development of our NAV tariffs? If not, please explain what alternatives you think we should consider.

No - IWNL expect that these objectives would also explicitly recognise Anglian Waters obligations under competition law and how this has been considered.

Q2. Do you agree that we should publish the elements necessary to enable each NAV to calculate the weighted average wholesale tariff for each site, rather than a single generic price? If not, please explain what alternative you would prefer and why.

No – IWNL require a simple process that enables NAV to understand the tariffs to be applied without interaction with incumbent. We accept that this will require an incumbent to publish more than one charge to reflect different types of customers on site but the number of tariffs should be kept to a minimum.

Q3. Is it reasonable to ask NAVs to provide certain information to support both the implementation of the tariff during the applicable charging year and the retrospective "true-up"? If not, please give reasons, and provide any alternative proposals if applicable.

IWNL recognise that it will be required to provide further information to the incumbent as the actual build composition of the site is finalised and implemented. IWNL would expect, however, that this would enable a NAV tariff to be provided upfront based upon set of assumptions and known points of variations.

Q4. Do you agree that a downward adjustment to recorded volumes should be made for charging purposes in respect of network losses between the bulk meter at the boundary of the NAV site and the end-user customers?

No further comment at this stage of the process

Q5. Do you agree with our proposed approach to making adjustments to billed volumes to reflect potential hypothetical leakage on the NAV site? If not, please set out the alternative(s) you think should be considered.

No further comment at this stage of the process

Q6. Do you support our proposal to make a flat percentage reduction to meter readings in respect of the network losses that would have occurred had we served NAV sites? If not, please set out what alternative approach you would prefer.

We agree that a simplified assumption to the level of onsite leakage should be made. This assumption should be based on known and verifiable data,

Q7. If you support the flat percentage adjustment approach to address network losses, do you agree that 2.16% is a reasonable allowance? If not, what alternative figure do you propose and why?

IWNL note that Anglian Water have provided no evidence to support the proposed level of onsite leakage.

Q8. Have we successfully captured all of the categories of on-site cost that need to be included in the “minus” calculation, or do you consider that we have missed anything?

From the information IWNL are unable to test whether all of the onsite costs that have been included in the Tariff “minus” calculation We would expect it to cover, amongst other things, the following functions:

- Network Maintenance of all onsite equipment
- Emergency cover
- IT systems
- Bad debt allowances for Network costs
- IT systems
- General management and Health and Safety
- Corporate overheads
- Finance and HR
- Regulatory costs
- Capital maintenance
- Normal profit
- Customer support
- Water sampling and water quality

We also note Anglian Waters comment that “although a NAV site may have a sewage pumping station, this is unusual: consequently, for the purposes of the development of wastewater NAV tariffs pumping stations are disregarded. We will deal with any that do arise on a case-by-case basis.”

Whilst IWNL are making a concerted effort to “design” out Pumping stations we do not believe that a Pumping station on a NAV site is unusual.

Q9. Do you agree that we should estimate hypothetical on-site ongoing costs with reference to the actual costs that we typically incur across our networks?

No further comment at this stage of the process

Q10. Do you support our proposal to use published data to derive the ongoing on-site cost element of NAV tariffs? If not, please explain why, and what alternative you would prefer.

We do not support Anglian Waters proposal to use **only** published data to derive on site cost element of the NAV tariff. This places unnecessary restrictions on the calculation of costs and we would expect Anglian to use all information available including all information provided to their regulators.

Q11. Do you agree that the ongoing on-site cost element of the tariff should be expressed on a common per-connection basis for all NAV sites? If not, what alternative would you prefer?

This would be IWNLs preference but would want this approach to be extended to all costs contained within the calculation of the NAV tariff.

Q12. Do you have any comments on the indicative calculations for on-site ongoing costs for 2018/19?

No further comments at this stage of the process.

Q13. Do you consider that a generic approach for capital replacement is preferable to carrying out site-by-site assessments of hypothetical future capital investment needs?

Yes we would support a generic approach for capital replacement that reflects the totality of costs.

Q14. Do you support our proposal to apply a common set of assumptions for the duration of capital replacement “holidays” so that this element of NAV tariffs can be the same for all sites?

No further comments at this stage of the process.

Q15. Do you agree that it is reasonable to set the replacement holiday for each type of asset at one third of the expected asset life?

No further comments at this stage of the process.

Q16. Please provide comments on our proposed methodology to give effect to the generic approach to calculating the avoided capital replacement costs, providing alternative suggestions where applicable. In particular:
a) do you agree with our identification of asset categories; is anything missing?
b) do you support our assumptions on asset lives?
c) do you have any comments on our proposed approach to unit costing and efficiency projections?
d) do you agree with our use of the NAV-specific WACC proposed by Ofwat in the Guidance for the projected return on RCV, and the wholesale WACC used by Ofwat at PR14 to convert future values into an ongoing annuity?

No further comments at this stage of the process.

Q17. Are we right to conclude that the return on RCV and depreciation components of the “minus” calculation in the methodology set out in the Guidance are only relevant for the bulk charges for NAVs appointed before 1st April 2018 so far as up-front investment is concerned (as distinct from future capital replacement)? If you have a different view, please provide details of other NAVs to which you think these elements are applicable.

IWNL believe that it is important that any adjustment to the methodology across time also meets Anglian Waters competition law obligations with specific reference to margin squeeze and other anti-competitive practices.

Q18. Do you agree with our proposed approach to:
a) the definition of the incremental RCV on which a return would have been earned;
b) the calculation of the income offset?
In each case, please indicate where you disagree and what alternative approach(es) you would propose.

No further comment at this stage of the process

Q19. Do you agree with our analysis of the derivation of "avoided rates costs"?
If not, please explain what alternative approach you think is appropriate.

No further comments at this stage of the process.

Q20. What are your views on our proposed approach to the depreciation policy to be applied to the net capex that would have been added to our RCV at the time a site was developed, including the asset life assumption?

No further comments at this stage of the process.

Q21. Do you have any comments on the "rolling RCV" calculations that we have set out, and the way that we propose to derive the return on capital, depreciation, and rates elements of the "minus"?

No further comments at this stage of the process.

Q22. What are your views on the proposal to apply a retrospective "true-up" as part of the application of NAV tariffs so that the effective price paid by the NAVs at each site is correct?

No further comments at this stage of the process.

Q23. Do you agree that we should aim to set provisional tariffs that are based on the best available forecasts for the relevant Charging Year?

IWNL would expect Anglian Water to use a consistent process and common underpinning methodology when setting all (including NAV) tariffs.

Q24. Do you have any comments on the proposed process for calculating provisional NAV tariffs in advance of the relevant Charging Year, and carrying out the "true-up" after the end of the Charging Year?

IWNL do not accept there is a need to calculate adjustments to NAV tariffs as this undermines the purpose to provide certainty of costs in advance of a point of connection application.

Q25. Do you have any comments on our proposed approach to dealing with future regulatory and other changes? Please indicate if there are any additional points you think we should consider.

No further comments at this stage of the process.

Q26. Do you agree that new NAV tariffs should be backdated to 8th May 2018 for existing NAVs?

IWNL believe that the Ofwat guidance is clear and the introduction of NAV tariffs took effect for all sites as at the 8th May 2018. This should apply to all new and existing sites.